



## The Small Business Conundrum

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## Market-Driven Innovation and Small Businesses

Small businesses are often formed because the owner has a good idea. If the idea has legs, then the business grows until revenue is at a reasonable, but fixed, level. Eventually, however, growth begins to stagnate.

*According to established data, only half of small businesses survive more than five years, and further decays continue over time.*

There are a host of reasons for this, but in general, those reasons are similar to why mid-level and large firms stagnate. However, a small business has two advantages over its larger counterparts: there are fewer team members to convince to get on the same page; and misalignment becomes noticeable, and actionable, early. Commitment is not enough, though. Focusing on the wrong issues overwhelms intentions.

Many pundits look to the same culprits—financing, resources, planning, and poor management. But these are what we call “outcome factors.” *Lack of customer focus* is most likely the real culprit. Real revenue comes from the customer. As a small business owner, you need to do the following:

- Understand why customers buy and recognize those reasons may be different for different customers. There are four reasons customers buy: better performance, better service, lower cost, and convenience.
- Identify and reach out to other potential customers who may value your offering.
- Make it easy (or easier) for your customers to buy by simplifying the buying process and responding quickly to issues.
- Price to the value you deliver, not to your costs to produce. If this is insufficient, then reduce your costs or find new offerings.
- Build off your customer knowledge with new offerings and new customers. Whatever you do, don't stay where you are!

## Drive Through the Barriers

At some point during the conversion from early introduction to accelerated acceptance, you need to obtain shared ownership of and more broadly participate in your organization. So, early on, you need to turn your organization's employees from observers into team members. To do this, you must engage some basic growth drivers.



### 1. Fast-based decision making

Determine the decision factors that will define success. In addition to defining the basis, the basis also has to be used to measure and timely report on the direction of those factors.

### 2. Well-thought-out growth plan

Establish an operational growth plan. Most growth plans fail because the team assumes growth is defined by the number of potential users not yet served and the effort required to reach, engage, and sell to them. Real growth planning identifies the factors that initiate growth, the factors that prevent growth, and how potential customers and/or markets fit into those factors.

### 3. Early look beyond the current innovation that has become mainstream

Potential customers who don't buy into your initial value proposition may be looking for an alternative solution or opportunity. This is potentially exciting for small business owners, because it enables innovation addition.

### 4. Preventing silo formation or inward focus

This is probably the biggest sin of large and want-to-be-large organizations. Most business leaders believe they must organize around functions. In doing so, they create silos that kill market innovation creativity. Small businesses, on the other hand, suffer from the load of work that must be done in these functional areas just to survive, and thus don't have time to think about growth or innovation. This factor is easily fixed, although the fix is dependent upon the nature of the small business.

## 5. Establishing those few clear and simplified work processes

It is important small business leaders determine and internally focus those few things that must be addressed for success and farm out or skim address the rest. This requires an assessment of core competencies, which large companies tend to ignore, but they can afford these more than a small business can.

Let's discuss each of these growth drivers in greater detail.

## Fact-Based Decisions

### Which decision factors will define success?

From the very beginning of sales, business owners must determine which few decision factors will define success. Business owners often misread or ignore the causal factors that were the basis for their early success. In the early stages of starting a business, you, the business owner, must do the following:

- Clearly identify why your customers buy from you, then transform that understanding into a value proposition monetized. Then, **decide what price to charge to provide this value.**
- Identify whether all of your customers buy for the same reasons. If they do not, then capture your learnings into different value propositions. Recognize different customer segments and how they value your offering, and consider modifying your offering for different segments. **Decide if and how you want to serve each identified segment.**
- Define your competition, how your competitors' value propositions are different from yours, and how those differences impact the customer segments you identified earlier. Monetize that difference to the extent you can, and then **decide how you want to address competitors' actions.**
- Understand your downstream markets and assess the dynamics that could cause your customers' businesses to grow or decline. Determine if you can make a contribution to address these dynamics and begin the process of acting on that. **Decide how to best reach additional markets.**

- At some early point, determine if your product has sufficient potential to become a brand and, if so, decide **how to take steps to transform your product into a brand**. Early branding is better and easier. Birthing a brand requires several steps beyond selling a product.
- Given what you have learned from the above fact-based decisions, your next growth challenge is to **decide how you consider new products/offerings to accelerate your business growth**.

Your attention to these activities and the decisions you make as a result of processing them will become the bases for ongoing growth, new revenues, and increasing competitive strength, which increase the odds of long-term success.

## A Well-Thought-Out Growth Plan



Assuming one of the success factors you have defined is primarily focused on the growth engine, it is critical to establish an operational growth plan. Most growth plans fail because they use worn-out approaches, take too much time to generate, and/or are not based on facts.

*Real growth planning identifies the factors that cause growth, the factors that prevent growth, and how the potential customers or markets fit into those factors.*

Growth planning does not need to be tedious or elaborate. Don't start with financial targets; those are lag metrics, or the result of acting on the real drivers. Instead, you need a sense of how acting on the few growth drivers results in financial growth, while keeping reality in mind. The three most crucial drivers are the following:



**Customers:** the number of customers who will buy your product or use your service



**Value proposition:** what new or improved products or services must be generated to attract more customers and increase sales revenue



**Quality resources:** what resources you need to act on your plan and how capable they are to do that

These three crucial growth drivers should be the core of your personal investment.

*“There are not enough hours in the day or days in the week to do all that alone,”* you say. Recognizing this, one solution is to find a variable cost “coach” who is skilled at this type of planning and knows your business and markets. Use them sparingly with a results-oriented metric to both leverage your time and prevent throwing money down a sinkhole.

## Ongoing Innovation

### Tools to Innovate



Innovating is the hardest of the five crucial drivers, but it’s also the most important. Your business will not continue to grow without innovation.

Although similar to the well-thought-out growth plan, ongoing innovation is different. Potential customers who don’t buy into your initial value proposition may be looking for alternative solutions or opportunities. This is potentially exciting to the small business owner, because it enables innovation.

Your small business leadership team must recognize **your initial success driver ages over time**. Additionally, competitors will enter the market with lookalike products at lower costs. You must either meet them at their level or bring an improvement into the fray. No one knows the needs and values of your current and future customers as well as you do. Our [Rapid Value Assessment \(RVA\)](#) framework provides you with a foolproof approach to bringing new products to your market.

There are two competing areas of growth focus:

- Continuous product improvement
- Cannibalizing your existing product

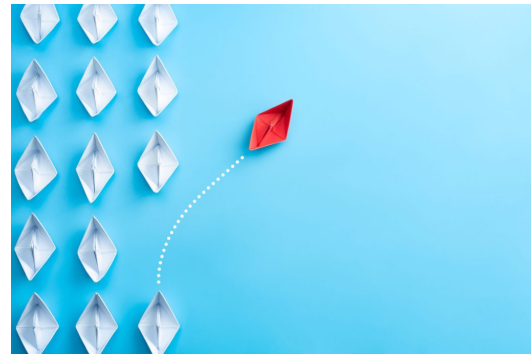
Product improvement at first seems most prudent, but it has a shorter life span. Cannibalizing your existing product may initially seem more painful, but it is not as painful as you think. Product replacement is a drawn-out process. Additionally, new innovation will most likely include finding new customers, increasing the size of your customer base. The continuation of this cycle not only accelerates growth, but also transitions your business across adjacent markets, as well as providing an opportunity to enter new geographical markets.

Our [Rapid Market Assessment \(RMA\)](#) framework helps you do the right work to expand into new markets quickly and with less risk of failure. RMA and RVA have very similar tools and vocabulary, so once you are comfortable utilizing one, the other is easy to use.

## Silo Formation

### The Organization's Greatest Sin

Silo formation is probably the greatest sin of large and want-to-be-large organizations. Most business leaders believe that in order to grow, they must organize around functions. In doing so, they create silos that kill market innovation creativity. On the other hand, small businesses suffer from the load of work that must be done in these functional areas just to survive and, thus, don't have time to think about growth or innovation. This factor is easily fixed, and the fix is generally dependent upon the nature of the small business.



### The Owner's Vision

The greatest obstacle to a small business's success is the business owner themselves.





*“I started this business, and I need to have absolute control.”*

Although this sentiment is understandable, the business owner must gradually share responsibilities and focus more on growth drivers. That means properly instructing employees on key operating tasks. Thus, operations must be well documented, reviewed, and continually improved.

*Start with the customer in mind. Customer care is the most powerful driver for all other operations.*

The owner must have a vision that is both clear and shared across the organization. Operational activities need to be linked to the vision, and each employee needs to know how the work they do relates to or supports achieving the vision. Openness is critical.

All direction and tasks are tied to the vision and shared across the organization. The owner needs to build trust and openness among *all* employees to eliminate the tendency for them to “compete” by sheltering their work from others.

Salaries/incentives should be tied to responsibilities and development programs encouraged to not only enable employees to improve performance, but also to enable advancement. Individuals who resist direction should be dealt with in a uniform approach.

## Simplifying Work Processes

### Focus and Simplify



It is important that the small business leader determine and internally focus those few factors that must be addressed for success, and farm out or skim address the rest. This requires an assessment of *core competencies*, which larger businesses tend to ignore. But larger businesses can afford to ignore core competencies, whereas small business cannot.

Larger businesses go through a plethora of “next new” approaches to work processes, with the intention of streamlining, eliminating errors, and accelerating excellence. They often bring in outside consultants, who specialize in the “new best approach,” to guide them through desired changes or improvements. Eventually, process improvement takes shape.

However, there are two strategic questions businesses must ask themselves:

- Are we more efficient or effective in the way we do work?
- Are we growing revenue and earnings as a result?

Small businesses already suffer from the workload that must be done in their functional areas just to survive. They don’t have time to think about process improvement the way a larger business does. The real issue they face is what to fix or improve first.

- What must you do better to attract and keep customers?
- How do you increase your capabilities to grow your business beyond your current state?

### Grow or Die!

The answer is to grow or die. The abovementioned processes are critical to both profitability and sustainability. Yes, the small business must continue to improve key work processes, but not by losing sight of those critical questions.

Attracting and keeping customers are most critical to small businesses. As such, the work includes the following:

- Understanding why customers buy, and recognizing the reasons may be different for different customers
- Identifying and reaching out to other potential customers who may value your offering
- Making it easy for customers to buy by simplifying the buying process and responding quickly to issues
- Pricing to the value you deliver, not to your costs to produce; and, if insufficient, reducing your costs or finding new offerings
- Building off your customers' knowledge with new offerings

Keeping your offering relevant or generating new products is the second most critical activity for a growing business. The work process above can be applied while recognizing that both clarity and specificity will evolve over time. Be willing to flow with your learning process.

How you do this and how often you need to update depend on your specific business conditions and go-to-market approach. In most cases, once you have this work defined, keeping it current becomes an ongoing component of your go-to-market process.

## Conclusion

The journey toward market-driven innovation offers a proven pathway for small businesses to navigate the complexities of growth in today's ever-evolving marketplace. By anchoring decision-making in data, crafting a forward-looking growth strategy, preemptively expanding beyond the confines of current mainstream innovations, avoiding the pitfalls of organizational silos, and streamlining work processes, small businesses can position themselves for sustainable success. Embracing these principles does not merely address the immediate conundrum of staying competitive; it also sets the stage for a future where these businesses not only adapt but thrive. In leveraging the insights and strategies discussed, small businesses can transform the challenges of innovation into opportunities for remarkable achievement, marking their territory in the competitive business landscape with agility and resilience.

## About the Author



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